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FM AMEMBASSY ASHGABAT
TO RUEHC/SECSTATE WASHDC 0696
INFO RUCNCIS/CIS COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RHMFIUU/CDR USCENCOM MACDILL AFB FL
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SENSITIVE

STATE FOR SCA/CEN, EUR/ACE, EEB
AID/W FOR EE/EA

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [EAID](#) [TX](#)

SUBJECT: TURKMENISTAN SIGNALS DESIRE TO MATCH OTHER CENTRAL ASIAN
COUNTRIES IN ACCOUNTING REFORM

11. (U) Sensitive but unclassified. Not for public Internet.

12. (U) SUMMARY: In response to a presentation by USAID on April 22, the Deputy Chairwoman of the Supreme Council on Science and Technology (SCST) voiced support for official approval for the USAID-developed accounting training and professional certification program in Turkmenistan. Official approval of the program would pave the way for expanded opportunities for capacity-building activities required to support implementation of International Financial Reporting Standards (IFRS), including banking sector accounting reform, public sector accounting reform, accounting and auditing education system reform. Approval would also enable private-sector training providers to make greater contributions to building these essential skills. Given the enormity of the proposed reforms, the Deputy Chairwoman requested continued USAID support in banking sector accounting reform and in accounting and auditing education system reform, which would complement proposed European Union assistance in public sector accounting reform. Once official approval of the program is conferred, USAID expects to receive increased government pressure for additional support. Despite this opportunity, USAID will only be able to provide token support given current budget realities (\$200,000 in FY08). END SUMMARY.

REFORMS ARE CORNERSTONE FOR INVESTMENT AND TRANSPARENCY

13. (U) The United States has consistently stressed the importance of accounting reform as a fundamental step to creating a market economy capable of attracting investment and preventing a wide range of economic ills, such as corruption, tax fraud, and money laundering. Most of the countries in Central Asia have long recognized the benefit of having financial reporting based on international standards and of having well-trained, competent accountants and auditors to apply those standards objectively.

14. (U) Although it formally announced its intentions to introduce International Financial Reporting Standards (IFRS) by adopting a Law on Accounting in 2003, Turkmenistan has yet to make significant strides toward this goal. Not only has the government not taken basic steps to prepare for implementing the law, it has not even begun to build the capacity required to implement IFRS.

15. (U) Under the centrally-planned Soviet economy, only bookkeepers existed in enterprises, since there was virtually no scope for financial analysis at the enterprise level. Therefore, to promote financial management, transparency, accountability, and professional values, USAID began supporting in 2001 the Russian-language Certified Accounting Practitioner (CAP)/Certified International Professional Accountant (CIPA) program in nine countries of the former Soviet Union, including Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Turkmenistan, Ukraine, Russia, Belarus, and Moldova. Due to its international foundations and focus on the highest world standards, CIPA has gained substantial recognition region-wide.

16. (U) To-date, 6,750 individuals in Central Asia have earned the entry level CAP designation, and 119 are qualified for CIPA. Kazakhstan leads the region with 4,228 CAP qualified professional accountants, while Turkmenistan has only 132 CAP-qualified accountants. Uzbekistan leads the region in the more advanced CIPA-level certification, with 45 candidates for certification, while Turkmenistan has no CIPA-qualified accountants. The current level of accountants with such training is insignificant relative to its population of approximately five million citizens. International experts estimate that Turkmenistan needs at least 5,000 certified accountants to support a reformed market economy.

17. (U) Another USAID capacity-building goal is the integration of CAP/CIPA courses into the curricula of higher education institutions (HEIs). CAP courses have been introduced into 46 universities across four countries of Central Asia through the training of 276 university professors. In Turkmenistan, no universities have adopted the CAP courses into the curriculum although plans for a new university curriculum are reportedly under development.

18. (U) USAID has also had significant success in working with

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Central Asian government officials to build CIPA program requirements into the government's regulation of the auditing industry (specifically, in governments' licensing of auditors). Here, too, the process has not yet started in Turkmenistan.

RENEWED INTEREST IN IFRS = TIPPING POINT?

19. (U) Recent public statements by President Berdimuhamedov have stressed the importance of International Financial Reporting Standards for attracting investments and developing Turkmenistan's economy. Moreover, the government has announced its intention to privatize public sector enterprises and promote private enterprise development. In an April 22 meeting with the Supreme Council on Science and Technology (SCST), a key decision maker emphasized that an IFRS system of accounting is both necessary and achievable.

110. (U) In response to a USAID presentation on the program and following discussion of how USAID might support the introduction of International Financial Reporting Standards, Supreme Council on Science and Technology Deputy Chairwoman Akjeren Allanurova voiced support for official approval of the CAP/CIPA program in Turkmenistan. Recognizing the enormity of the proposed reforms -- and the opportunity for Turkmenistan to build upon lessons learned across the region -- the Deputy Chairwoman requested continued USAID support for banking sector accounting reform and accounting and auditing education system reform. As a next step, USAID agreed to submit via official channels the CAP/CIPA education materials and support a training session on the CAP/CIPA course materials for higher education instructors that are involved in revising the university curriculum. Allanurova indicated that with their support, it was possible that the courses could be included in the new curriculum for higher education institutions that will go into effect this fall.

111. (SBU) COMMENT: Although CAP and CIPA courses are currently available for banking sector staff and interested private citizens on a limited basis, official approval of the program would pave the way for wider capacity-building activities required to support International Financial Reporting Standards implementation,

including banking sector accounting reform, public sector accounting reform, accounting and auditing education system reform. Approval would also expand opportunities for private-sector training providers to contribute to building these essential skills.

¶12. (SBU) COMMENT CONTINUED: EU-TACIS proposed support for public sector accounting reform in conjunction with the Ministry of Finance. Once official approval of the CAP/CIPA program is conferred by the Supreme Council on Science and Technology, USAID expects to receive increased pressure from the Turkmenistan government for support. Despite the new opportunity to build upon previous regional activities in this area, USAID will only be able to provide token support (\$200,000 in FY08) under current budget realities. Although current FY09 projections are more favorable for the Economic Growth portfolio, the potential demand for technical support for introducing international standards promoting investment and transparency appears to outstrip even these higher funding levels. Additional resources for International Financial Reporting Standards introduction would help build much-needed capacity in the education sector. Building this capacity is a long-term project that will require sustained USG engagement - in coordination with like-minded donors such as the European Union -- for years to come. END COMMENT.

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